PENSIONS
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Irish Life

MULTI MANAGER TARGET RETURN FUND

QUARTER 4 (Q4) 2018: 1ST OCTOBER TO 31ST DECEMBER

Welcome to the latest edition of the Multi Manager Target Return Fund quarterly update. In this edition we review

- The contributors to the performance since launch in January 2016 (+4.0% to 31/12/2018).
- Some key moments and economic events impacting on very challenging investment markets during quarter 4 (from start of October to end of December).
- Which strategies were up and which were down?
- The current structure of the fund and a summary of the fund managers and their strategies.

Returns shown are to 31 December 2018 and are gross, before any charges or tax.

The Multi Manager Target Return Fund invests in a number of external funds managed by expert investment managers. The underlying funds invest in a wide range of assets, using a variety of investment strategies. This fund aims to achieve a gross return of 4% over cash, measured over a rolling four-year period. This is an Irish Life fund managed by Irish Life Investment Managers (ILIM).

1 UNIQUE MULTI MANAGER APPROACH:

- Accesses world class, diversified manager styles and skill sets
- Reduces single manager or single fund selection risk
- A robust and flexible manager selection process seeks to maximise investment opportunities

2 CLEAR CASH + TARGET RETURN:

- Aims for a gross return of 4% per annum over cash* measured over a rolling 4-year period**
- Targets positive returns not directly linked to market ups and downs

3 BENEFIT OF TARGET RETURN FUNDS:

- Seeks equity-like returns with less volatility (volatility is potential ups and downs that a fund may experience over time)
- Diverse source of return which helps smooth the investment journey.

Warning: If you invest in this fund you may lose some or all of the money you invest.
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* 4% return over cash, where cash is measured by EONIA (Euro Over Night Index Average) which is the rate at which banks provide loans to each other with a duration of 1 day. 4% target is gross of standard charges and net of external manager variable charges.

** This means that the return will be calculated as the average annual return achieved over the previous four years.

QUARTER 4 2018 ECONOMIC LOOK-BACK

By David Haslam

NO NEWS IS BAD NEWS...

Global stock markets hit an all-time high in late September and then fell sharply to finish the year in negative territory. The most obvious reasons were 1) rising US bond yields, making them relatively more attractive versus equities 2) uncertainty over the US/China trade negotiations 3) concerns over global growth 4) various political tensions and 5) downward revisions to corporate earnings. None of these reasons are particularly new and have in fact been bubbling away individually in the background for some time. Combined, however, they are clearly impacting investor confidence and are likely to keep global markets volatile in the short term. At a more local level, the spectre of a no-deal Brexit also looms large. Again, the lack of new news around resolving the border issue left room for investors to speculate and when market sentiment is waning, that rarely delivers a positive outcome.

ITALIAN BONDS BUCATINI PATCH OF VOLATILITY...

With European growth under the spotlight and Brexit looming large, the last thing the Eurozone needs to deal with is another internal threat to stability. The Italians spent most of Q4 arguing the case for running a budget deficit outside the terms set by the EU. Thankfully, and unusually, it has been resolved quickly easing pressure on Italian 10yr bond yields. In fact, Eurozone bonds in general enjoyed a broadly positive Q4 with investors buying due to concerns over lower future growth and low inflation persisting for now.

THE EUROPEAN CENTRAL (S)ANK

The ECB has lowered its inflation and growth forecasts for the coming year. They have already informed markets of their intent to end support via asset purchases and start increasing interest rates. In reality, they will almost certainly reinvest maturing bonds back into asset purchases to continue market support and although they indicated that raising rates is not scheduled until at least the end of the summer 2019 but realistically the market thinks it will be closer to mid-2020 when that actually happens.

SHARES, BONDS, COMMODITIES AND CURRENCIES

The MSCI AC World equity index fell -12.4% in the fourth quarter of 2018 in local currency terms (-11.3% in euro). The US fell -13.7% over the same time period (-12.3% in euro) on fears of a possible rate policy mistake on the part of the US Fed and increased political uncertainty into year end. Meanwhile, Europe was down -11.8% (-11.6% in euro) whereas Emerging Markets fared relatively better with a fall of just -7.4% (-5.9% in euro), benefiting from relatively attractive valuations and hopes of an ultimate resolution to the US/China trade dispute. Japan fell -17.1% (-12.8% in euro), being negatively impacted by the stronger Yen which was a drag on exporters. Closer to home, the UK fell -9.7% (-10.4% in euro) with continued Brexit chaos and uncertainty. Finally, the Pacific region outperformed with a fall of just -6.5% (-6.4% in euro)

In Bond markets, the Intercontinental Exchange BofA Merrill Lynch Eurozone > 5 year government bond index rose 1.9% during the quarter. Following the initial rise in the German 10 year yield to 0.57% on the back of the rise in US yields, yields declined to 0.24% by year end as European economic data weakened and inflation remained low.

In currency markets, the euro remained somewhat volatile through the quarter, impacted by the political issues in Italy, Brexit related uncertainty and changing monetary policy expectations at the ECB and US Fed. Over the quarter as a whole it fell to 1.1452 against the US dollar having reached a low of 1.1218. Towards year end the ultimate compromise on the Italian fiscal deficit and talk of a much slower pace of rate rises by the US Fed in 2019 contributed to a modest rebound in the euro.

Commodities fell -22.9% (-21.7% in euro) with WTI oil falling -38.0% despite OPEC announcing plans for production cuts of 1.2 million barrels per day until June 2019. A rise in oil inventory levels due to increased US production, the granting of exemption waivers for six months to eight countries from the ban on importing Iranian oil and reduced oil demand forecasts due to concerns over slower growth all contributed to the sharp fall in the oil price.

Source: David Haslam, Head of Retail, Irish Life Investment Managers (ILIM), 31 December 2018.

QUARTER 4 2018 FUND UPDATE

By Peter Haran, Head of Alternative Strategies

Peter Haran is the Head of Alternative Strategies at ILIM. Peter joined ILIM from the National Treasury Management Agency (NTMA) in 2014 where he was Head of Investment Strategy for the National Pensions Reserve Fund (NPRF) for seven years. As chair of the NPRF Investment Committee, Peter was responsible for identifying investment opportunities and proposing tactical asset allocation positions across all asset classes. Before joining the NTMA Peter was a fund manager at IIU Asset Strategies.

Peter has a degree in Applied Mathematical Sciences and a Masters in Computer Applications from Dublin City University.

The Multi Manager Target Return Fund was launched in January 2016. The fund invests in a range of external funds managed by world class investment managers. We strongly believe that target return funds should be delivered in a manner that reduces fund selection and single manager risks, while benefiting from the increasing number and type of strategies available in the market place. This is achieved in the Multi Manager Target Return Fund by investing in a range of investment strategies through multiple external fund managers.

FUND STRATEGIES

The Multi-Manager Target Return Fund has returned -4.3% in quarter 4 2018 and has returned +4.0% since it was launched in January of 2016.

The negative performance in quarter 4 came in particular from Diversified Return Strategies, which had one of its toughest quarters to date but the Global Opportunities Strategies also struggled. The Credit and Alternative Return Strategies had a challenging period also.

Warning: Past performance is not a reliable guide to future performance.

Returns shown are to 31 December 2018 and are gross, before any charges or tax.

PORTFOLIO UPDATES

During the quarter, there were no changes to the manager line-up or to manager or strategy weights..

FUND STRUCTURE

The Multi Manager Target Return Fund consists of a mix of core and satellite fund strategies.

The "core" portion of the portfolio is invested primarily to provide exposure to more traditional asset types such as shares and bonds. By investing in a variety of different investment styles, the core strategy aims to deliver diverse market based returns with lower risk than broader share markets.

The "satellite" portion is invested to provide diversification to these traditional asset types. Satellite strategies make up a smaller portion of the fund and seek to achieve higher returns through external manager skill rather than market performance alone.

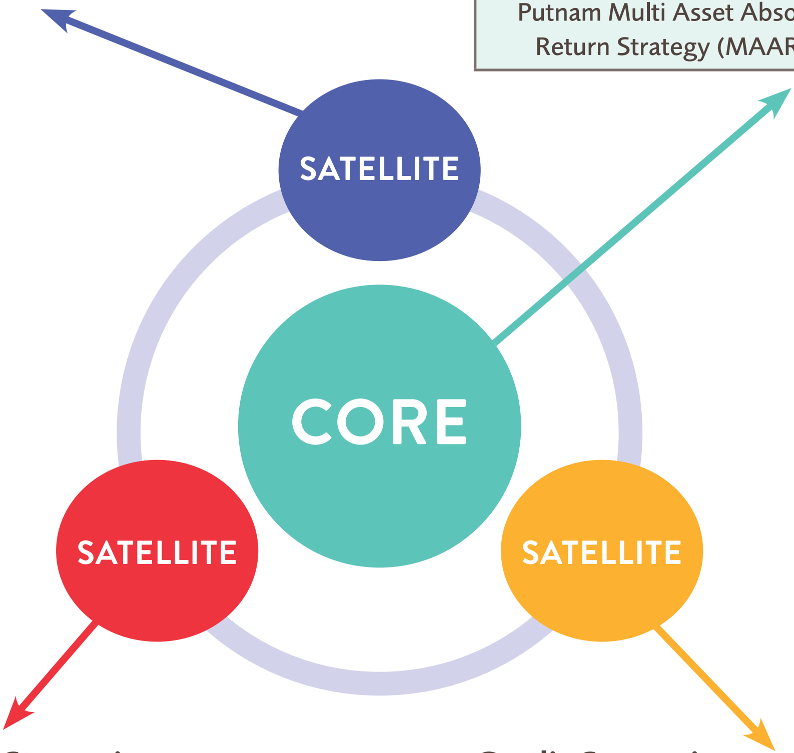
CORE AND SATELLITE STRATEGIES

Alternative Return Strategies

FUND	MANAGER ASSETS
Blackrock Style Advantage Fund	$6.44 tn**
AQR Style Premia Fund	$226 bn***

Diversified Return Strategies

FUND	MANAGER ASSETS
GMO Real Return Fund	$70 bn**
AQR Global Risk Parity Fund	$226 bn**
Putnam Multi Asset Absolute Return Strategy (MAARS)	$170 bn***



Global Opportunity Strategies

FUND	MANAGER ASSETS
Montlake Dunn WMA Fund	$1 bn**
GMO Systematic Global Markets (SGM) Fund	$70 bn**

Credit Strategies

FUND	MANAGER ASSETS
Blackrock FIGO Fund	$6.44 tn**
PIMCO Income Fund	$1.72 tn**
DB Platinum MidOcean Fund	$8 bn*

*Correct as at 30 June 2018 • **Correct as at 30 September 2018 • ***Correct as at 30 November 2018

ALTERNATIVE RETURN STRATEGIES	These are non-traditional strategies relying on 'hedge fund' / skill based strategies.
DIVERSIFIED RETURN STRATEGIES	These strategies aim to deliver share market type returns using different investment approaches.
GLOBAL OPPORTUNITIES STRATEGIES	These managers monitor themes or trends in markets and invest to take advantage of identified opportunities. Some are very short term, some are over longer periods.
CREDIT STRATEGIES	These strategies aim to generate return by investing in traditional and non-traditional types of credit such as corporate bonds and mortgage backed securities.

FUND SUMMARY

DIVERSIFIED RETURN STRATEGIES	
GMO Real Return Fund	This is an actively managed portfolio of assets with GMO choosing these assets across different asset classes driven by their own internal models, which focus strongly on valuations.
AQR Global Risk Parity	This large, well-diversified fund chooses investments based on a risk-weighting approach and aims to provide higher risk-adjusted returns than traditional market exposures. The fund consists of over 50 underlying investments across three main asset categories.
Putnam Multi Asset Absolute Return Strategy (MAARS)	This actively-managed fund has two parts - one investing in a number of asset classes across broad and diversified market exposures. The other is around opportunistic pair trading. This is where skilful managers take opposite positions (buy/sell) in two different stocks aiming to make more in one than they lose in another which gives a neutral market position overall and avoids market risk.
ALTERNATIVE RETURN STRATEGIES	
AQR Style Premia	This fund aims to produce high, risk-adjusted returns while maintaining low-to zero correlation to traditional markets. This is achieved by constructing a global diversified, absolute return portfolio with exposure to a number of investment styles.
BlackRock Style Advantage Fund	The Fund aims to achieve a positive absolute return through a combination of capital growth and income, providing exposure to styles such as momentum, value, carry, defensive. The fund invests on a global basis with low correlation to broader markets.
CREDIT STRATEGIES	
BLACKROCK FIGO	This fund is a global fixed interest fund that aims to generate returns from long and short exposures in credit markets. Typically, the fund may have exposure to many non-traditional credit risks such as mortgage-backed securities and emerging market debt which helps diversify the more traditional fixed interest investment exposures found in multi-asset funds.
PIMCO Income	This fund seeks to generate a competitive monthly dividend while also maintaining a focus on a long term return. The fund aims to achieve this by employing PIMCO's best income generating ideas across global fixed income sectors with an explicit mandate on risk-factor diversification.
DB Platinum MidOcean	This fund exploits persistent efficiencies in the high yield bond market, with a focus on callable bonds.
GLOBAL OPPORTUNITIES STRATEGIES	
Montlake Dunn WMA	This fund focusses on medium to long-term investment trends. It takes long and short positions in financial, energy, metal and agricultural futures markets. This fund aims to generate profits from investments with a very low correlation to traditional asset classes.
GMO Systematic Global Markets (SGM) Fund	The Fund seeks to take advantage of the GMO Systematic Global Macro team's proprietary investment models for global tactical asset allocation and equity, bond, currency, and commodity market selection.

The funds that the Multi Manager Target Return Fund invests in may change over time. For the actual Multi Manager Target Return Fund mix, see the latest factsheet at **www.irishlife.ie**

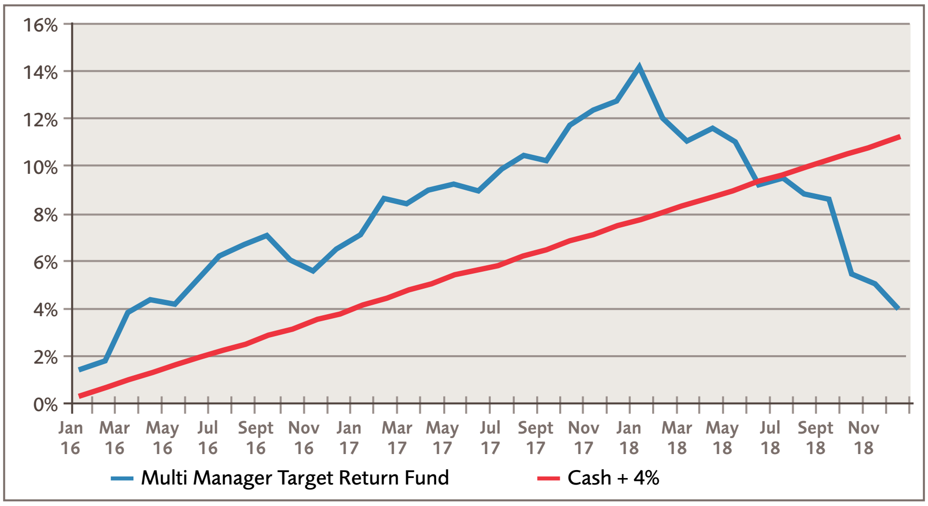
PERFORMANCE

Market Background

Having reached new all time highs in late September, equities fell sharply in quarter 4 ending the year in negative territory, with the global stock market delivering a return of -12.4% in local currency terms (-11.3% in euro terms) over the quarter. This negative performance was mainly driven by a rise in US bond yields reducing the relative attractiveness of equities, fears that the Federal Reserve deciding to continue raising interest rates through 2019 could push the US economy into recession and also concerns around global economic data, particularly in Europe and China. Other issues which unsettled markets were ongoing uncertainty with the US/China trade dispute, various political tensions and downward revisions to corporate earnings for the first time in a number of years. In contrast Eurozone sovereign bonds rose over the period, benefiting from the increasing concerns over growth and persistence of low inflation, particularly given the sharp fall in oil prices in the fourth quarter.

PERFORMANCE SINCE LAUNCH AGAINST CASH PLUS 4% BENCHMARK

Cumulative performance since inception, as can be seen in chart, has recently started to lag the benchmark cash return as alternative strategies, in particular Alternative Return strategies and funds with long market exposures, struggled through 2018.



Source: Irish Life Investment Managers (ILIM).
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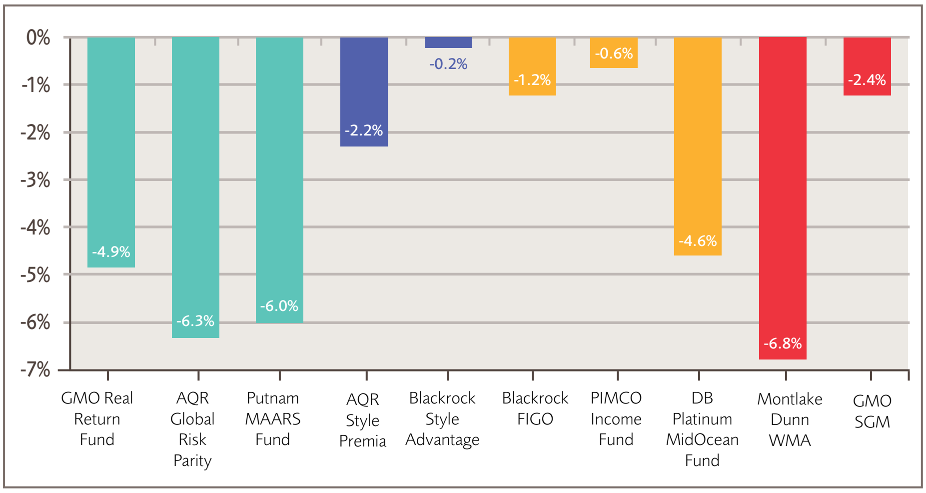
PERFORMANCE BY FUND DURING THE QUARTER (01/10/2018 TO 31/12/2018)

Quarter 4 was a volatile period, with no evidence of the so-called 'Santa rally' in December. Equity markets fell sharply in October and December, driving losses across Diversified Return strategies in particular which contain long market exposure to developed market and emerging market equities. Bonds fared better in December and the PIMCO Income fund in particular benefitted from this in the Credit Strategies exposure. Alternative Return strategies had a poor quarter although BlackRock Style Advantage did stem losses when compared to previous periods in the year. Global Opportunities Strategies entered the quarter carrying long equity exposures and suffered in October as a result, particularly Montlake DUNN. The strategy finished the year short equities and was able to benefit from this in December.



Note: The contribution to performance of an individual strategy or fund depends on the weight of that strategy or fund in the overall fund which is not allowed for in figures above. Figures are approximate because of fund changes made.

Source: Irish Life Investment Managers (ILIM). Returns shown are to 31 December 2018 and are gross, before any charges or tax.

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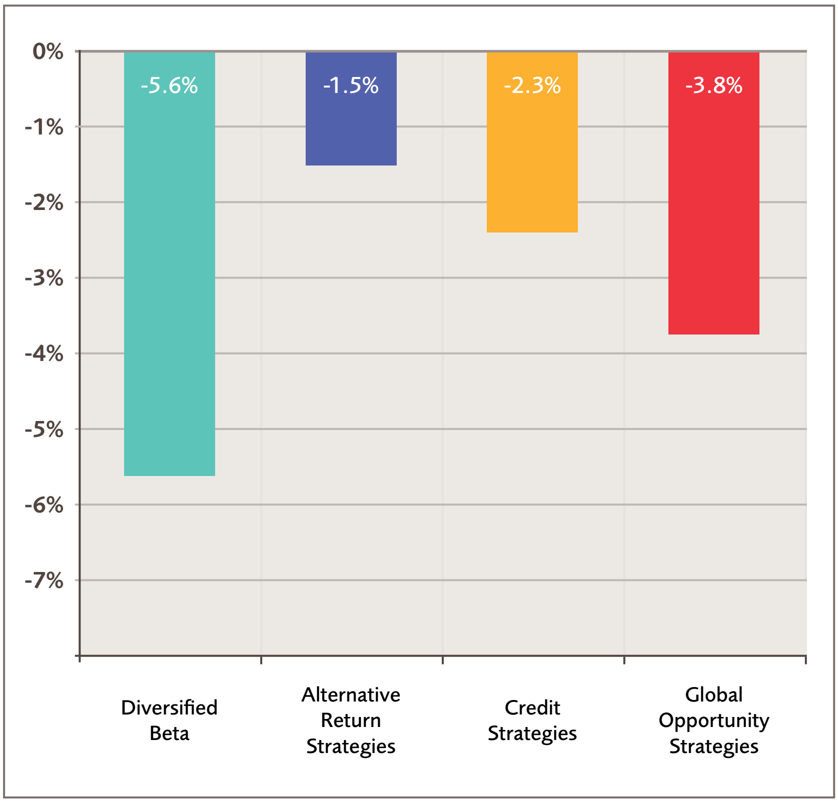
PERFORMANCE BY STRATEGY LAST 12 MONTHS (31/12/2017 TO 31/12/2018)

Diversified Returns – This strategy group has exposure to risky assets such as shares and bonds which had a very difficult year in 2018 but have been the main contributor to returns since the beginning. GMO placed the majority of their equity allocation in Emerging Markets, which struggled through 2018, while Putnam MAARS include allocations to both directional and alternative strategies, which have both underperformed.

Alternative Returns – The strategy which replicates hedge fund type strategies had a good year in 2017 but have struggled throughout 2018, particularly through the first half of the year. The 'value' factor in particular has had one of its worst years on record, and other factors which tend to counter it, such as 'quality' and 'momentum' did not offset value losses. Equity value in particularly was badly hit.

Credit Strategies – The credit part of the portfolio held up reasonably well against the background of a 'rising rates' environment in the US, which generally makes it more difficult for credit strategies to be profitable. The MidOcean Fund showed diversifying characteristics through much of the year, but gave back some returns in quarter 4 as it increased risk to take advantage of increased fixed income volatility into 2019.

Global Opportunities – 'Trend' had a very challenging 2018 after finishing 2017 strongly. Montlake Dunn, our trend-following strategy, has been no different. It was hit hard during the October equity market reversal in particular. As it finished the year in a short equity position it actually generated a positive return in December as markets reversed again, but this was not sufficient to make up prior losses.



Note: the contribution to performance of an individual strategy or fund depends on the weight of that strategy or fund in the overall fund so above returns are approximate. Source: Irish Life Investment Managers (ILIM).

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ILIM'S CREDENTIALS

About Irish Life's investment managers

Our investment manager is internationally recognised for their expertise, innovation and track record and are multi award winners:

2018 European Pension Award Winner -

- Best Passive Manager Award.

2014 European Pension Award Winners -

- Best Equity and
- Best Passive Manager Awards.

The only Irish investment manager to win an award and the only manager in Europe to win 2 awards.

2018 Irish Pension Awards -
Passive Manager of the Year and Property Manager of the Year.

2017, 2015, 2014 and 2013 Irish Pension Awards -
Investment Manager of the Year.

2017 Irish Pension Awards -
Equities Manager of the Year.

2016 Irish Pension Awards -
Passive Manager of the Year.

2014 Irish Pension Awards -
Alternatives Investment Manager of the Year.

2017 Longboat Analytics Awards -
Best Investment Provider.

2016 Longboat Analytics Awards -
Best Innovation in Financial Services.

Our investment manager takes care of

€69.6 BILLION OF ASSETS

(as at 30/11/2018).

For more details please see www.irishlife.ie/investments or contact your financial broker or financial adviser.

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